

LARUE COUNTY SCHOOL DISTRICT
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS

Year Ended June 30, 2005

LARUE COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Larue County School District
Hodgenville, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Larue County School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract - General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, and Appendix III of the Independent Auditor's Contract - Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated August 25, 2005, on our consideration of Larue County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 3 through 8, and the Budgetary Comparison Information on pages 34 through 35, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Larue County School District's basic financial statements. The combining financial statements as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Also, the accompanying Schedule of Expenditures of Federal Awards on pages 40 through 41 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stiles, Carter & Associates

Certified Public Accountants
August 25, 2005

REQUIRED SUPPLEMENTARY INFORMATION

**LARUE COUNTY SCHOOL DISTRICT – HODGENVILLE, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2005**

The discussion and analysis of Larue County School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to review the School District's financial performance as a whole; readers should also review the financial statements and notes to the financial statements to enhance their understanding of the School District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in the Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local governments* issued in June 1999.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$4.6 million. The ending cash balance for the District was \$5.1 million.
- Following the completion of the District long-range plan for facilities, there is a focus on investing in plant management with the age and size of our facilities reflective of this need.
- Due to the rebound in interest rates, interest income increased \$56 thousand; that is a 44.5 percent increase.
- During fiscal 2005, the District improved its financial position through an increase of \$805 thousand in net assets.
- The General Fund had \$13.9 million in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. Excluding inter-fund transfers, there were \$13.6 million in General Fund expenditures.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's total bond debt decreased by \$505 thousand during the current fiscal year.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 9 - 10 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. The only fiduciary funds private purpose trust funds used for scholarships and agency funds for student education. The only proprietary funds are our food service and childcare operations. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 11 - 19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 - 33 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$5.8 million as of June 30, 2005.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the periods ending June 30, 2005 and 2004
(Table 1)

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Current and Other Assets	\$ 4,702,781	\$ 4,537,922	\$ 1,029,544	\$ 743,686	\$ 5,732,325	\$ 5,281,608
Capital Assets	<u>13,882,858</u>	<u>14,029,498</u>	<u>1,248,063</u>	<u>1,262,094</u>	<u>15,130,921</u>	<u>15,291,592</u>
Total Assets	<u>18,585,639</u>	<u>18,567,420</u>	<u>2,277,607</u>	<u>2,005,780</u>	<u>20,863,246</u>	<u>20,573,200</u>
Long-term Debt	13,808,805	14,348,333	-	-	13,808,805	14,348,333
Other Liabilities	<u>1,072,033</u>	<u>1,198,329</u>	<u>222,910</u>	<u>71,856</u>	<u>1,294,943</u>	<u>1,270,185</u>
Total Liabilities	<u>14,880,838</u>	<u>15,546,662</u>	<u>222,910</u>	<u>71,856</u>	<u>15,103,748</u>	<u>15,618,518</u>
Net Assets						
Investment in capital assets (net of debt)	(157,751)	(546,018)	1,248,063	1,262,094	1,090,312	716,076
Restricted	1,057,955	849,775	-	-	1,057,955	849,775
Unrestricted	<u>2,804,597</u>	<u>2,717,001</u>	<u>806,634</u>	<u>671,830</u>	<u>3,611,231</u>	<u>3,388,831</u>
Total Net Assets	<u>\$ 3,704,801</u>	<u>\$ 3,020,758</u>	<u>\$ 2,054,697</u>	<u>\$ 1,933,924</u>	<u>\$ 5,759,498</u>	<u>\$ 4,954,682</u>

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

The District had an increase in cash of \$500 thousand and reduced its bond obligations by \$505 thousand.

Comments on Budget Comparisons

- The District's total revenues for the fiscal year ended June 30, 2005, net of Interfund transfers, were \$18.7 million.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$2.8million more than budget or approximately 24%.
- The total cost of all programs and services was \$18.7 million including debt service.
- General fund budget expenditures to actual varied significantly in Instruction and the Other Expenditures line item. According to instructions from the Kentucky Department of Education, the District did not budget on-behalf payments or spend budgeted contingency funds. This is the major reason for the budget variances.

The following Table 2 presents a summary of changes in net assets for the fiscal years ended June 30, 2005 and 2004.

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
REVENUES:						
Program revenues:						
Charges for services	\$ 2,061	\$ 6,880	\$ 606,481	\$ 632,655	\$ 608,542	\$ 639,535
Operating grants and contributions	3,067,348	3,066,540	679,561	671,274	3,746,909	3,737,814
Capital grants and contributions	338,787	505,275	-	-	338,787	505,275
General revenues:						
Property taxes	2,020,274	1,907,735	-	-	2,020,274	1,907,735
Motor vehicle taxes	363,351	360,490	-	-	363,351	360,490
Utility taxes	529,517	456,304	-	-	529,517	456,304
Investment earnings	162,931	115,629	19,958	10,966	182,889	126,595
State and formula grants	11,108,582	10,946,936	-	-	11,108,582	10,946,936
Gain (loss) on asset disposal	5,423	33,189	(35)	876	5,388	34,065
Miscellaneous	70,836	16,175	-	-	70,836	16,175
Special item - gain on sale of building	-	58,091	-	-	-	58,091
Total revenues	<u>17,669,110</u>	<u>17,473,244</u>	<u>1,305,965</u>	<u>1,315,771</u>	<u>18,975,075</u>	<u>18,789,015</u>
EXPENSES:						
Program Activities:						
Instruction	10,604,415	10,365,915	-	-	10,604,415	10,365,915
Student support	775,424	685,958	-	-	775,424	685,958
Instructional staff support	811,761	530,133	-	-	811,761	530,133
District administrative support	461,662	272,752	-	-	461,662	272,752
School administrative support	826,492	837,498	-	-	826,492	837,498
Business support	328,558	301,884	-	-	328,558	301,884
Plant operation and maintenance	1,381,678	1,297,275	-	-	1,381,678	1,297,275
Student transportation	932,121	833,605	-	-	932,121	833,605
Central office support	3,378	-	-	-	3,378	-
Facilities acquisition	16,181	181,561	-	-	16,181	181,561
Community service activities	173,516	178,620	-	-	173,516	178,620
Other	29,549	29,525	-	-	29,549	29,525
Interest costs	640,332	657,909	-	-	640,332	657,909
Business-type Activities:						
Food service	-	-	929,806	873,033	929,806	873,033
Childcare	-	-	255,386	295,069	255,386	295,069
Total expenses	<u>16,985,067</u>	<u>16,172,635</u>	<u>1,185,192</u>	<u>1,168,102</u>	<u>18,170,259</u>	<u>17,340,737</u>
Increase in net assets	<u>\$ 684,043</u>	<u>\$ 1,300,609</u>	<u>\$ 120,773</u>	<u>\$ 147,669</u>	<u>\$ 804,816</u>	<u>\$ 1,448,278</u>

Governmental Activities

Instruction comprises 62% of governmental program expenses. Support services expenses make up 34% of government expenses. The remaining expense for interest, facilities acquisition and other items accounts for the remaining 4% of total government expense.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

	Governmental Activities Total Cost of Services		Net Cost of Services	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Instruction	\$ 10,604,415	\$ 10,365,915	\$ 8,174,429	\$ 7,731,464
Support Services	5,694,590	4,937,725	5,055,167	4,498,756
Other	29,549	29,525	29,549	29,525
Facilities acquisition	16,181	181,561	16,181	20,969
Interest costs	<u>640,332</u>	<u>657,909</u>	<u>301,545</u>	<u>313,226</u>
Total expenses	<u><u>\$ 16,985,067</u></u>	<u><u>\$ 16,172,635</u></u>	<u><u>\$ 13,576,871</u></u>	<u><u>\$ 12,593,940</u></u>

Business-Type Activities

The business-type activities include the food service and childcare operations. These programs had total revenues of \$1,305,965 and expenses of \$1,185,192 for fiscal year 2005. Of the revenues, \$606,481 was charges for services, \$632,655 was from State and Federal grants, \$19,958 was from investment earnings and \$(35) was loss on sale of assets. Business activities receive no support from tax revenues. The School District will continue to monitor the charges and costs of this activity. If it becomes necessary, the School District will increase the charges for this activity.

The School District's Funds

Information about the School District's major funds starts on page 11. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$18,607,045 and expenditures and other financing uses of \$18,273,772. Net changes in fund balances for the year were most significant in General Fund which increased by \$185,284.

The increase in the General Fund was due to closely monitoring costs, increased tax revenue and the sale of capital assets.

General Fund-Budget Highlights

The School District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. The State Department of Education requires a zero-based budget with any budgeted remaining fund balance shown as a contingency expense in the budget process.

For the General Fund, revenues were budgeted at \$11,165,013 with actual amounts of \$13,966,187. Budgeted expenditures of \$14,263,478 compare with actual expenditures of \$13,587,241. The most significant fluctuation is for on-behalf payments of \$2,232,408. If on-behalf payments were not included in revenues, revenues would be \$11,733,779, which is \$568,766 over budget. If on-behalf payments were not included in expenditures, expenditures would be \$11,354,833, which is \$2,908,645 under budget.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005 the School District had \$15,130,921 invested in land, buildings, equipment, and construction in progress, and \$13,882,858 in governmental activities. Table 4 shows fiscal year 2005 and 2004 balances.

	Capital Assets (Net of Depreciation)					
	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Land	\$ 309,472	\$ 309,472	\$ -	\$ -	\$ 309,472	\$ 309,472
Construction in progress	148,311	-	-	-	148,311	-
Land improvements	448,505	493,283	-	-	448,505	493,283
Buildings and improvements	11,739,256	12,066,126	983,605	1,008,709	12,722,861	13,074,835
Technology	431,452	385,612	6,559	9,959	438,011	395,571
Vehicles	590,720	548,794	-	-	590,720	548,794
General equipment	215,142	226,211	257,899	243,426	473,041	469,637
Total	<u>\$ 13,882,858</u>	<u>\$ 14,029,498</u>	<u>\$ 1,248,063</u>	<u>\$ 1,262,094</u>	<u>\$ 15,130,921</u>	<u>\$ 15,291,592</u>

Table 5 shows changes in capital assets for the fiscal years 2005 and 2004.

	Change in Capital Assets					
	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Beginning balance	\$ 14,029,498	\$ 14,463,959	\$ 1,262,094	\$ 1,276,428	\$ 15,291,592	\$ 15,740,387
Additions	545,151	316,232	44,727	41,800	589,878	358,032
Retirements	(487)	(21,754)	(35)	676	(522)	(21,078)
Depreciation	(691,304)	(728,939)	(58,723)	(56,810)	(750,027)	(785,749)
Ending balance	<u>\$ 13,882,858</u>	<u>\$ 14,029,498</u>	<u>\$ 1,248,063</u>	<u>\$ 1,262,094</u>	<u>\$ 15,130,921</u>	<u>\$ 15,291,592</u>

Debt

At June 30, 2005, the School District had \$14,055,000, in bonds outstanding, of this amount \$4,682,686 is to be paid from the KSFCC funding provided by the State of Kentucky. A total of \$520 thousand is due within one year.

District Challenges for the Future

Larue County School District's financial status has improved in the last fiscal year. This improvement was the result of an increase in state and tax revenues and a hold on expenditures. However, as we look forward, we expect unfunded mandates to have an impact on our District.

The School District has continued to improve facilities by building new and renovating existing schools. These new and renovated facilities come with additional personnel cost (both administrative and support staffs). These facilities also have a cost for computers, library books, instructional materials, and other items that are primarily paid from the General Fund. These costs along with the need to add or renovate additional buildings in the next few years will create more challenges for the School District.

The costs associated with growth have in the past been offset due to increased student enrollment producing additional state funding, and continued increases in business and residential property subject to tax within the School District. Our property tax base continues to grow; however our School District, like all Kentucky School Districts, is limited to a 4% annual growth in property tax revenue on existing property.

Additional factors concerning our School District's financial status include the implementation of various unfunded mandates. Examples include the Flex Fund accounts (Professional Development, Safe Schools, Preschool, Textbooks and Extended School Services). State funding for these programs does not meet our instructional needs as a District. Therefore, local generated funds will have to address these areas. Also, the uncertainty of state budgeted revenue projections may impact our funding as well as future mandated salary increases for all certified personnel. In addition, the full effect of No Child Left Behind (NCLB) has yet to be determined. Funding for this program is not equal to the mandates required by the Federal Government.

The District will be upgrading technology (primarily computers, but also "Smart Boards" and various other equipment). KETS funding has been very limited and many of our computers have difficulty running more complex programs. Last year when we conducted an inventory, there were still approximately one hundred (100) 166 megahertz computers. We had approximately another one hundred (100) each of 333 megahertz and 400 megahertz computers. All these computers are outdated and in need of replacement. A rough estimate to replace these machines is about \$1,200/unit x 300 = \$360,000.00.

The District also has an emphasis on its preschool program. As a District, we understand the value of early intervention, and would like to expand this program. To comply with NCLB, as previously mentioned another major unfunded mandate, identifying literacy problems and addressing them at an early age is essential. Presently, our program services children at-risk (qualify for free lunch) and children that are developmentally delayed (speech & hearing problems). The district would like to expand by going to a full-day program or being able to over these services to other children (that don't qualify for free lunch), but the general fund would have to pay the additional cost.

The District has made the commitment to have competitive salaries for its teachers. This past year we adjusted the Rank III (beginning - exp. 0-9 years) teacher's salaries to one of the highest in the areas, if not the state - \$32,335. We want to continue this process for the next two (2) years in the Rank I and Rank II salary schedules. This will have a recurring financial effect, so the district must closely monitor personnel costs.

The District is involved in reviewing and upgrading its athletic facilities. We partially renovated the Larue County High School (LCHS) gym (sand/paint floor, painted interior walls and ceiling), added lighting to our baseball and softball facilities, constructed a soccer field, and will hopefully renovate the track (re-bid and award on 9/19). In addition to these projects, the football stadium was built in 1962 and has a seating capacity of about 800. Some structural problems exist and the current facility is not compliant with the Americans With Disabilities Act. A new stadium and bleachers are needed. We intend to include this with the next capital construction project which will also include the construction of a new LCHS gym.

With careful planning and monitoring of our finances, Larue County Schools' goal is to continue to provide a quality education for our students and a secure financial future for the School District.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information contact Pamela Kay Bryant, Finance Officer, 208 College Street, Hodgenville, Kentucky, (270) 358-4111.

BASIC FINANCIAL STATEMENTS

LARUE COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2005

Assets	Governmental Activities	Business- Type Activities	Total
<u>Current Assets</u>			
Cash and cash equivalents	\$ 4,126,779	\$ 999,953	\$ 5,126,732
Inventory		21,542	21,542
Accounts receivable:			
Taxes-current	54,227		54,227
Accounts receivable	7,606		7,606
Intergovernmental-State	50,580	8,049	58,629
Intergovernmental-Indirect Federal	244,331		244,331
Due from other funds	219,258		219,258
Total Current Assets	4,702,781	1,029,544	5,732,325
<u>Noncurrent Assets</u>			
Capital assets	21,899,577	1,889,609	23,789,186
Less: accumulated depreciation	(8,016,719)	(641,546)	(8,658,265)
Total Noncurrent Assets	13,882,858	1,248,063	15,130,921
Total Assets	18,585,639	2,277,607	20,863,246
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	162,260	3,652	165,912
Due to other funds		219,258	219,258
Deferred revenue	33,905		33,905
Current portion of bond obligations	520,000		520,000
Current portion of capital lease obligations	45,716		45,716
Current portion of accrued sick leave	113,102		113,102
Interest payable	197,050		197,050
Total Current Liabilities	1,072,033	222,910	1,294,943
<u>Noncurrent Liabilities</u>			
Noncurrent portion of bond obligations	13,535,000		13,535,000
Less: Deferred amount on refunding	(40,016)		(40,016)
Less: Bond discount and expense	(20,091)		(20,091)
Noncurrent portion of accrued sick leave	333,912		333,912
Total Noncurrent Liabilities	13,808,805	-	13,808,805
Total Liabilities	14,880,838	222,910	15,103,748
<u>Net Assets</u>			
Invested in capital assets, net of related debt	(157,751)	1,248,063	1,090,312
Restricted for:			
Capital projects	373,979		373,979
Debt service	683,976		683,976
Other purposes (nonexpendable)			-
Unrestricted	2,804,597	806,634	3,611,231
Total Net Assets	\$ 3,704,801	\$ 2,054,697	\$ 5,759,498

See accompanying notes to financial statements.

LARUE COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

FUNCTIONS/PROGRAMS

Governmental Activities:

	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business- Type Activities	Total
Instruction	\$ 10,604,415	\$ 2,061	\$ -	\$ (8,174,429)	\$ -	\$ (8,174,429)
Support services:						
Student	775,424	105,087		(670,337)		(670,337)
Instruction staff	811,761	274,764		(536,997)		(536,997)
District administrative	461,662			(461,662)		(461,662)
School administrative	826,492			(826,492)		(826,492)
Business	328,558	6,853		(321,705)		(321,705)
Plant operation and maintenance	1,381,678	23,512		(1,358,166)		(1,358,166)
Student transportation	932,121	51,952		(880,169)		(880,169)
Central office	3,378			(3,378)		(3,378)
Facilities acquisition and construction	16,181			(16,181)		(16,181)
Community service activities	173,516	177,255		3,739		3,739
Other	29,549			(29,549)		(29,549)
Interest on long-term debt	640,332		338,787	(301,545)		(301,545)
Total Governmental Activities	16,985,067	3,067,348	338,787	(13,576,871)	-	(13,576,871)

Business-Type Activities:

Food service	929,806	613,633			112,234	112,234
Childcare	255,386	65,928			(11,384)	(11,384)
Total Business-Type Activities	1,185,192	679,561	-	-	100,850	100,850
Total Primary Government	\$ 18,170,259	\$ 3,746,909	\$ 338,787	(13,576,871)	100,850	(13,476,021)

General Revenues:

Taxes:

Property taxes	2,020,274					2,020,274
Motor vehicle taxes	363,351					363,351
Utility taxes	529,517					529,517
Investment earnings	162,931				19,958	182,889
State and formula grants	11,108,582					11,108,582
Gain (loss) on disposal of fixed assets	5,423				(35)	5,388
Miscellaneous	70,836					70,836

Total general revenues

	14,260,914				19,923	14,280,837
--	------------	--	--	--	--------	------------

Change in net assets

	684,043				120,773	804,816
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Net assets - beginning

	3,020,758				1,933,924	4,954,682
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Net assets - ending

	\$ 3,704,801				\$ 2,054,697	\$ 5,759,498
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See accompanying notes to financial statements.

FUND FINANCIAL STATEMENTS

LARUE COUNTY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2005

	General Fund	Special Revenue	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets and Resources:					
Cash and cash equivalents	\$ 3,356,856	\$ -	\$ 683,976	\$ 352,520	\$ 4,393,352
Accounts receivable:					
Taxes - current	54,227				54,227
Accounts receivable		7,606			7,606
Intergovernmental - State		34,521			34,521
Intergovernmental - Indirect Federal		244,331			244,331
Due from other funds	74,725			144,533	219,258
Total Assets and Resources	<u>\$ 3,485,808</u>	<u>\$ 286,458</u>	<u>\$ 683,976</u>	<u>\$ 497,053</u>	<u>\$ 4,953,295</u>
Liabilities and Fund Balances:					
Liabilities					
Accounts payable	\$ 87,650	\$ 58,551	\$ -	\$ -	\$ 146,201
Cash overdraft		143,499		123,074	266,573
Deferred revenue	27,210	20,095			47,305
Total Liabilities	114,860	222,145	-	123,074	460,079
Fund Balances					
Reserved for:					
Sick leave	44,000				44,000
Debt service			683,976		683,976
SFCC escrow				352,520	352,520
Construction				21,459	
Unreserved:					
Undesignated, reported in:					
General fund	3,326,948				3,326,948
Special revenue funds		64,313			64,313
Total Fund Balances	<u>3,370,948</u>	<u>64,313</u>	<u>683,976</u>	<u>373,979</u>	<u>4,493,216</u>
Total Liabilities and Fund Balances	<u>\$ 3,485,808</u>	<u>\$ 286,458</u>	<u>\$ 683,976</u>	<u>\$ 497,053</u>	<u>\$ 4,953,295</u>

See accompanying notes to financial statements.

LARUE COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2005

Total fund balance per fund financial statements	\$ 4,493,216
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Amounts reported for governmental activities in the statement of net
assets are different because:

Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	13,882,858
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Certain assets (such as certain long-term receivables) are not reported in this fund financial statement because they are not recorded under modified accrual.	16,059
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Certain liabilities (such as bonds and capital leases, certain payables, accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	<u>(14,687,332)</u>
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Net assets for governmental activities	<u><u>\$ 3,704,801</u></u>
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See accompanying notes to financial statements.

LARUE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2005

	General Fund	Special Revenue	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes:					
Property	\$ 1,733,866	\$ -	\$ -	\$ 286,408	\$ 2,020,274
Motor vehicle	363,351				363,351
Utilities	529,517				529,517
Tuition and fees	770				770
Earnings on investments	126,068	1,232	35,631		162,931
Other local revenues	71,567	18,317		560	90,444
Intergovernmental - State	11,108,582	882,765	338,787	597,951	12,928,085
Intergovernmental - Indirect Federal		1,519,448			1,519,448
Intergovernmental - Direct Federal	32,466	3,000			35,466
Total Revenues	13,966,187	2,424,762	374,418	884,919	17,650,286
Expenditures:					
Instruction	8,341,214	1,797,157			10,138,371
Support services:					
Student	671,491	105,087			776,578
Instruction staff	537,656	274,764			812,420
District administrative	414,542				414,542
School administrative	839,605				839,605
Business	421,144	6,863			428,007
Plant operation and maintenance	1,371,579	23,512			1,395,091
Student transportation	914,779	51,952			966,731
Facilities acquisition and construction	16,181			148,311	164,492
Community service activities		177,255			177,255
Other	59,050		407		59,457
Bond issue costs					-
Debt service:					
Principal			505,000		505,000
Interest			645,374		645,374
Total Expenditures	13,587,241	2,436,590	1,150,781	148,311	17,322,923
Excess (Deficit) of Revenues over Expenditures	378,946	(11,828)	(776,363)	736,608	327,363
Other Financing Sources (Uses):					
Proceeds from sale of fixed assets	5,910				5,910
Operating transfers in		29,802	751,277	169,770	950,849
Operating transfers out	(199,572)			(751,277)	(950,849)
Total Other Financing Sources (Uses)	(193,662)	29,802	751,277	(581,507)	5,910
Excess (Deficit) of Revenue and Other Financing Sources over Expenditures and Other Financing Uses	185,284	17,974	(25,086)	155,101	333,273
Fund Balance, July 1, 2004	3,185,664	46,339	709,062	218,878	4,159,943
Fund Balance, June 30, 2005	\$ 3,370,948	\$ 64,313	\$ 683,976	\$ 373,979	\$ 4,493,216

See accompanying notes to financial statements.

LARUE COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Net change in total fund balances per fund financial statements	\$ 333,273
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense exceeds capital outlays for the year.	(146,153)
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	548,618
In the statement of activities, only the gain (loss) on sale of fixed assets is reported, whereas in the governmental funds, the proceeds for the sale increased financial resources.	(487)
Generally, revenues are recorded in the fund financial statement only when they are measurable and available, but revenues are recognized in the statement of activities when realized.	13,400
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>(64,608)</u>
Change in net assets of governmental activities	<u>\$ 684,043</u>

See accompanying notes to financial statements.

LARUE COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

June 30, 2005

	Food Service Fund	Childcare Fund	Total
Assets			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 807,402	\$ 192,551	\$ 999,953
Inventory	21,542		21,542
Accounts receivable:			
Intergovernmental - State		8,049	8,049
Total Current Assets	828,944	200,600	1,029,544
<u>Noncurrent Assets</u>			
Capital assets	1,886,709	2,900	1,889,609
Less: accumulated depreciation	(638,721)	(2,825)	(641,546)
Total Noncurrent Assets	1,247,988	75	1,248,063
Total Assets	2,076,932	200,675	2,277,607
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	1,826	1,826	3,652
Due to other funds	74,725	144,533	219,258
Total Current Liabilities	76,551	146,359	222,910
<u>Net Assets</u>			
Invested in capital assets, net of related debt	1,247,988	75	1,248,063
Unrestricted	752,393	54,241	806,634
Total Net Assets	\$ 2,000,381	\$ 54,316	\$ 2,054,697

See accompanying notes to financial statements.

LARUE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

Year Ended June 30, 2005

	Food Service Fund	Childcare Fund	Total
Operating Revenues:			
Lunchroom sales	\$ 424,741	\$ -	\$ 424,741
Other operating revenues	3,666	178,074	181,740
Total Operating Revenues	428,407	178,074	606,481
Operating Expenses:			
Salaries and wages	393,117	222,128	615,245
Materials and supplies	452,068	29,964	482,032
Depreciation	58,573	150	58,723
Other operating expenses	26,048	3,144	29,192
Total Operating Expenses	929,806	255,386	1,185,192
Operating loss	(501,399)	(77,312)	(578,711)
Non-Operating Revenues (Expenses):			
Federal grants	541,661	13,991	555,652
Donated commodities	57,599		57,599
State grants	14,373	51,937	66,310
(Loss) on disposal of equipment	(35)		(35)
Interest income	19,781	177	19,958
Total Non-Operating Revenues (Expenses)	633,379	66,105	699,484
Change in Net Assets	131,980	(11,207)	120,773
Net assets, July 1, 2004	1,868,401	65,523	1,933,924
Net assets, June 30, 2005	\$ 2,000,381	\$ 54,316	\$ 2,054,697

See accompanying notes to financial statements.

LARUE COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2005

	Food Service Fund	Childcare Fund	Total
Cash Flows from Operating Activities			
Cash received from:			
Lunchroom sales	\$ 424,741	\$ -	\$ 424,741
Other activities	3,666	325,451	329,117
Cash paid to/for:			
Employees	393,117	222,128	615,245
Supplies	388,791	28,909	417,700
Other activities	26,048	3,144	29,192
Net Cash Provided (Used) by Operating Activities	(379,549)	71,270	(308,279)
Cash flows from Non-Capital and Related Financing Activities			
Federal grants	541,661	15,126	556,787
State grants	14,373	49,251	63,624
Net Cash Provided by Non-Capital and Related Financing Activities	556,034	64,377	620,411
Cash Flows from Capital and Related Financing Activities			
Purchases of capital assets	(44,727)		(44,727)
Cash Flows from Investing Activities			
Receipt of interest income	19,781	177	19,958
Net increase in cash and cash equivalents	151,539	135,824	287,363
Balances, beginning of year	655,863	56,727	712,590
Balances, end of year	\$ 807,402	\$ 192,551	\$ 999,953
Reconciliation of operating loss to net cash used by operating activities			
Operating loss	\$ (501,399)	\$ (77,312)	(578,711)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Depreciation	58,573	150	58,723
Donated commodities	57,599		57,599
Change in assets and liabilities:			
Receivables		3,577	3,577
Inventory	(521)		(521)
Accounts payable	1,826	1,055	2,881
Interfund payable		144,533	144,533
Deferred revenue		(733)	(733)
Due to other funds	4,373		4,373
Net cash provided (used) by operating activities	\$ (379,549)	\$ 71,270	\$ (308,279)
Schedule of non-cash transactions:			
Donated commodities received from federal government	\$ 57,599	\$ -	\$ 57,599

See accompanying notes to financial statements.

LARUE COUNTY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

June 30, 2005

	Private Purpose Trust Funds	Agency Fund
Assets		
Cash and cash equivalents	\$ 21,423	\$ 105,274
Accounts receivable		3,358
Total Assets	<u>21,423</u>	<u>108,632</u>
Liabilities		
Accounts payable	-	6,197
Due to student groups		102,435
Total Liabilities	<u>-</u>	<u>108,632</u>
Net Assets Held in Trust	<u>\$ 21,423</u>	<u>\$ -</u>

See accompanying notes to financial statements.

LARUE COUNTY SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

Year Ended June 30, 2005

	Private Purpose Trust Funds
Additions	
Net interest and investment gains (losses)	\$ 584
Contributions	2,036
Deductions	
Scholarships paid	<u>(1,750)</u>
Change in net assets	870
Net Assets, beginning of year	<u>20,553</u>
Net Assets, end of year	<u><u>\$ 21,423</u></u>

See accompanying notes to financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Larue County Board of Education ("Board"), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Larue County Board of Education ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies, which may influence operations and primary accountability for fiscal matters. As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the District has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Larue County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Larue County Board of Education Finance Corporation – In a prior year the Board of Education resolved to authorize the establishment of the Larue County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors. The Corporation is blended into the District's financial statements.

Basis of Presentation

The District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The statement of net assets presents the financial condition of the governmental and business-type activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in fund balances. Proprietary funds are reported using the economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases and decreases in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities. Fiduciary funds are also reported using the economic resources measurement focus.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.

LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 40 through 41. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- (D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund of the District.

II. Proprietary Fund Types (Enterprise Fund)

- A. The Food Service Fund is used to account for school food service activities, including the National School Lunch and Breakfast Programs, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. This is a major fund of the District.
- B. The Childcare Fund accounts for the day care operations of the District. This is a major fund of the District.

III. Fiduciary Fund Type (Agency Fund)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

- B. The Private Purpose Trust Funds are used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Basis of Accounting - continued

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Property Taxes

Property Tax Revenues – Property taxes are normally levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund. The usual collection date is the period from November 1 through December 31. Property tax bills paid prior to December 1 received a two percent discount. Property taxes received after December 31, are considered to be delinquent and the County Attorney can file a lien against the property.

The property tax rates assessed for the year ended June 30, 2005, to finance operations were \$.435 per \$100 valuation for real property, \$.449 per \$100 valuation for business personal property and \$.552 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	25-50 years
Technology equipment	5 years
Vehicles	5-10 years
General equipment	5-15 years
Food service equipment	5-12 years

LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. All budget appropriations lapse at year-end.

Encumbrances

Encumbrances are not liabilities and, therefore, are not reported as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2005.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Receivables

The District recognizes revenues as receivable when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions.

Accrued Liabilities and Long-Term Obligations

All payables accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for SFCC escrow and debt service.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools and for childcare services provided.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities. At June 30, 2005, \$2,070,204 of the District's bank balance of \$5,537,720 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$2,070,204</u>
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LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2005

NOTE D - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

Governmental Activities	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Non-Depreciable Assets:				
Land	\$ 309,472	\$ -	\$ -	\$ 309,472
Construction in progress		148,311		148,311
Depreciable Assets:				
Land improvements	1,072,607			1,072,607
Buildings and improvements	15,875,690	10,684		15,886,374
Technology equipment	1,799,114	210,484	(28,920)	1,980,678
Vehicles	1,606,650	155,970	(92,613)	1,670,007
General equipment	812,786	19,702	(360)	832,128
Totals at historical cost	21,476,319	545,151	(121,893)	21,899,577
Accumulated depreciation:				
Land improvements	579,324	44,778		624,102
Buildings and improvements	3,809,564	337,554		4,147,118
Technology equipment	1,413,502	164,469	(28,745)	1,549,226
Vehicles	1,057,856	114,044	(92,613)	1,079,287
General equipment	586,575	30,459	(48)	616,986
Total accumulated depreciation	7,446,821	691,304	(121,406)	8,016,719
Government Activities Capital Assets - Net	<u>\$ 14,029,498</u>	<u>\$ (146,153)</u>	<u>\$ (487)</u>	<u>\$ 13,882,858</u>
Business-Type Activities				
Buildings and improvements	1,255,218			1,255,218
Technology equipment	41,180		(300)	40,880
General equipment	549,659	44,727	(875)	593,511
Totals at historical cost	1,846,057	44,727	(1,175)	1,889,609
Accumulated depreciation:				
Buildings and improvements	246,509	25,104		271,613
Technology equipment	31,221	3,365	(265)	34,321
General equipment	306,233	30,254	(875)	335,612
Total accumulated depreciation	583,963	58,723	(1,140)	641,546
Business-Type Activities Capital Assets - Net	<u>\$ 1,262,094</u>	<u>\$ (13,996)</u>	<u>\$ (35)</u>	<u>\$ 1,248,063</u>
Depreciation was charged to governmental functions as follows:				
Instruction	\$ 545,258			
Student support	3,275			
Instructional staff	1,866			
District administration	4,699			
School administration	1,205			
Business support	8,091			
Plant	5,271			
Transportation	118,261			
Central office	3,378			
	<u>\$ 691,304</u>			

LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2005

NOTE E – LONG-TERM OBLIGATIONS

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1997	\$ 1,515,000	4.1% - 5.2%
1998	5,685,000	4.4% - 4.5%
2001	8,170,000	2.7% - 5.0%
2003	1,075,000	1.35% - 3.5%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Larue County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has "participation agreements" with the Kentucky School Facilities Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2005, for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2005-06	\$ 520,000	\$ 626,986	\$ 338,787	\$ 808,199
2006-07	540,000	607,160	338,786	808,374
2007-08	560,000	585,729	338,786	806,943
2008-09	585,000	562,981	338,786	809,195
2009-10	615,000	538,244	338,786	814,458
2011-15	3,315,000	2,274,262	1,537,844	4,051,418
2016-20	3,585,000	1,494,987	1,116,435	3,963,552
2021-25	3,125,000	658,355	334,476	3,448,879
2021-25	<u>1,210,000</u>	<u>61,250</u>	<u>-</u>	<u>1,271,250</u>
	<u>\$ 14,055,000</u>	<u>\$ 7,409,954</u>	<u>\$ 4,682,686</u>	<u>\$ 16,782,268</u>

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2005

NOTE E – LONG-TERM OBLIGATIONS - CONTINUED

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Long-term liability for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Revenue bonds payable	\$14,560,000	\$ -	\$ 505,000	\$14,055,000	\$ 520,000
Accrued sick leave	<u>391,075</u>	<u>111,414</u>	<u>55,475</u>	<u>447,014</u>	<u>113,102</u>
Governmental Activities:					
Long-term liabilities	<u>\$14,951,075</u>	<u>\$ 111,414</u>	<u>\$ 560,475</u>	<u>\$14,502,014</u>	<u>\$ 633,102</u>

The Debt Service Fund is primarily responsible for paying the bond obligations through funding from the Capital Outlay and FSPK funds. The General Fund is primarily responsible for paying accrued sick leave.

NOTE F – CAPITAL LEASE PAYABLE

The following is an analysis of the leased property under capital lease by class:

<u>Classes of Property</u>	<u>Book value as of June 30, 2005</u>
Buses	\$ 14,981

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2005:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2006	\$ 48,048
Less: Amount representing interest	<u>(2,332)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 45,716</u>

LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2005

NOTE G – COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for office equipment provide the minimum future rental payments as of June 30, 2005, as follows:

Year ending

June 30, 2005	<u>\$ 14,500</u>
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Rent expense for the year ended June 30, 2005, was \$17,400.

NOTE H – RETIREMENT PLANS

All the District's eligible employees participate in the Kentucky Teacher's Retirement System (KTRS), a statewide multiple-employer public employee retirement system covering all employees of local school districts within the State of Kentucky. KTRS is a cost sharing public employee retirement system with one exception: all risks and costs are not shared by the District but are the liability of the State of Kentucky. KTRS is funded through state and employee contributions and the District has no legal obligation for paying benefits. As discussed below, the District may be required in certain situations to make limited contributions on behalf of certain employees.

The State of Kentucky contributes 13.105% of the employee's gross earnings except for those District employees being paid from and participating in federally funded programs. During the year, contributions of \$1,010,886 were made by the State of Kentucky and \$106,989 in contributions were passed through the District's federally funded programs. Contributions by the employees are 9.855% of gross earnings and are withheld by the District. Such withholdings totaled \$840,645 during the year and were paid by the District to the State of Kentucky. The District has no other liability under the plan. The District's total payroll for all employees during the year was \$10,811,041, and \$9,346,537 of such amount related to employees covered by the retirement plan.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS). Funding for the Plan is provided through payroll withholdings of 5% and a District contribution of 8.48% of the employee's total compensation subject to contribution. The District's contribution requirement for CERS for the year ended June 30, 2005 was \$306,465, which consisted of \$190,121 from the District and \$116,344 from the employees. The total covered payroll for CERS during the year was \$2,242,164. Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

Additional information and historical trend information can be obtained from the separately issued Teacher Retirement System of Kentucky Comprehensive Annual Financial Report.

Deferred Compensation

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The Board therefore does not show these assets and liabilities on this financial statement.

LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2005

NOTE I - CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE J - LITIGATION

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress, except as described elsewhere in this report.

NOTE K - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively rated which includes Workers' Compensation insurance.

NOTE L - RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

LARUE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2005

NOTE M - DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance/net assets:

Childcare Fund	\$ 11,207
Debt Service Fund	25,086

NOTE N - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss (contingency).

NOTE O - TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Technology Match	\$ 29,802
Operating	SEEK Capital Outlay	Debt Service	Debt Service	193,368
Operating	FSPK Fund	Debt Service	Debt Service	557,909
Operating	General	Construction	Construction	169,770

NOTE P – INTERFUND RECEIVABLES AND PAYABLES

The interfund balance at June 30, 2005, was as follows:

<u>Payable Fund</u>	<u>Receivable Fund</u>	<u>Amount</u>	<u>Explanation</u>
Food Service Fund	General Fund	\$ 74,725	Amount owed for charges paid by General Fund
Childcare Fund	Construction Fund	\$ 144,533	Amount owed for funds deposited in wrong bank account

NOTE Q – ON-BEHALF PAYMENTS

The District receives on-behalf payments from the State of Kentucky for items including retirement and insurance. The amount received for the fiscal year ended June 30, 2005, was \$2,232,408.

REQUIRED SUPPLEMENTARY INFORMATION

LARUE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE- BUDGET AND ACTUAL

GENERAL FUND

Year Ended June 30, 2005

	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Revenues:			
From local sources:			
Taxes:			
Property	\$ 1,609,664	\$ 1,566,500	\$ 1,733,866
Motor vehicle	331,845	323,000	363,351
Utilities	396,000	350,000	529,517
Tuition and fees			770
Earnings on investments	63,000	50,000	126,068
Other local revenues	3,000	3,000	71,567
Intergovernmental - Intermediate			
Intergovernmental - State	9,348,547	8,872,513	11,108,582
Intergovernmental - Indirect Federal			
Intergovernmental - Direct Federal			32,466
	<u>11,752,056</u>	<u>11,165,013</u>	<u>13,966,187</u>
Total Revenues			
Expenditures:			
Instruction	7,332,077	6,945,435	8,341,214
Support services:			
Student	598,395	579,834	671,491
Instruction staff	527,874	495,308	537,656
District administrative	662,496	746,733	414,542
School administrative	729,550	709,577	839,605
Business	252,502	450,647	421,144
Plant operation and maintenance	1,575,648	1,669,112	1,371,579
Student transportation	826,720	804,507	914,779
Facilities acquisition and construction	366,250	479,000	16,181
Other	800,544	1,383,325	59,050
	<u>13,672,056</u>	<u>14,263,478</u>	<u>13,587,241</u>
Total Expenditures			
Excess (Deficit) of Revenues over Expenditures	(1,920,000)	(3,098,465)	378,946
Other Financing Sources (Uses):			
Proceeds from sale of fixed assets			5,910
Operating transfers out	(30,000)	(43,200)	(199,572)
	<u>(30,000)</u>	<u>(43,200)</u>	<u>(193,662)</u>
Total Other Financing (Uses)			
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(1,950,000)	(3,141,665)	185,284
Fund balance, July 1, 2004	<u>1,950,000</u>	<u>3,141,665</u>	<u>3,185,664</u>
Fund balance, June 30, 2005	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,370,948</u>

Both inflows and outflows are equally different in the Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds by the amount of on-behalf payments of \$2,327,408.

LARUE COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL**

SPECIAL REVENUE FUND

Year Ended June 30, 2005

	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Revenues:			
From local sources:			
Taxes:			
Property	\$ -	\$ -	\$ -
Motor vehicle			
Utilities			
Other taxes			
Tuition and fees			1,232
Earnings on investments			18,317
Other local revenues	13,275	13,317	
Intergovernmental - Intermediate			
Intergovernmental - State	1,011,435	981,631	882,765
Intergovernmental - Indirect Federal	1,403,034	1,517,533	1,519,448
Intergovernmental - Direct Federal	2,200	3,000	3,000
Total Revenues	<u>2,429,944</u>	<u>2,515,481</u>	<u>2,424,762</u>
Expenditures:			
Instruction	2,187,176	1,934,734	1,797,157
Support services:			
Student		49,188	105,087
Instruction staff	68,924	261,656	274,764
District administrative			
School administrative			
Business			6,863
Plant operation and maintenance		31,350	23,512
Student transportation		49,136	51,952
Central office			
Facilities acquisition and construction			
Community service activities	173,844	197,255	177,255
Debt service			
Principal			
Interest			
Total Expenditures	<u>2,429,944</u>	<u>2,523,319</u>	<u>2,436,590</u>
Excess (Deficit) of Revenues over Expenditures	-	(7,838)	(11,828)
Other Financing Sources (Uses):			
Operating transfers in		7,838	29,802
Operating transfers out			
Total Other Financing Sources (Uses)	<u>-</u>	<u>7,838</u>	<u>29,802</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	-	-	17,974
Fund balance, July 1, 2004	<u>-</u>	<u>-</u>	<u>46,339</u>
Fund balance, June 30, 2005	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,313</u>

SUPPLEMENTARY INFORMATION

LARUE COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2005

	Capital Outlay Fund	FSPK Fund	Construction Fund	Total Nonmajor Governmental Funds
Assets and Resources:				
Cash and cash equivalents	\$ 28,652	\$ 323,868	\$ -	\$ 352,520
Due from other funds			144,533	144,533
Total Assets and Resources	<u>\$ 28,652</u>	<u>\$ 323,868</u>	<u>\$ 144,533</u>	<u>\$ 497,053</u>
Liabilities and Fund Balances:				
Liabilities				
Cash overdraft	\$ -	\$ -	\$ 123,074	\$ 123,074
Total Liabilities	-	-	123,074	123,074
Fund Balances				
Reserved for:				
SFCC escrow	28,652	323,868		352,520
Construction			21,459	21,459
Unreserved:				
Undesignated, reported in:				
Capital projects funds				-
Total Fund Balances	<u>28,652</u>	<u>323,868</u>	<u>21,459</u>	<u>373,979</u>
Total Liabilities and Fund Balances	<u>\$ 28,652</u>	<u>\$ 323,868</u>	<u>\$ 497,053</u>	<u>\$ 497,053</u>

LARUE COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2005

	Capital Outlay Fund	FSPK Fund	Construction Fund	Total Nonmajor Governmental Funds
Revenues				
From local sources:				
Taxes:				
Property	\$ -	\$ 286,408	\$ -	\$ 286,408
Other local revenues		560		560
Intergovernmental - State	219,630	378,321		597,951
Total Revenues	219,630	665,289		884,919
Expenditures				
Facilities and construction			148,311	148,311
Total Expenditures	-	-	148,311	148,311
Excess (Deficit) of Revenues over Expenditures	219,630	665,289	(148,311)	736,608
Other Financing Sources (Uses)				
Operating transfers in			169,770	169,770
Operating transfers out	(193,368)	(557,909)		(751,277)
Total Other Financing Sources (Uses)	(193,368)	(557,909)	169,770	(581,507)
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	26,262	107,380	21,459	155,101
Fund balance, July 1, 2004	2,390	216,488	-	218,878
Fund balance, June 30, 2005	<u>\$ 28,652</u>	<u>\$ 323,868</u>	<u>\$ 21,459</u>	<u>\$ 373,979</u>

LARUE COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

AGENCY FUNDS

June 30, 2005

	Buffalo Elementary	Hodgenville Elementary	Magnolia Elementary	Larue County Middle School	Larue County Intermediate School	Larue County High School	Total Agency Fund
Assets							
Cash and cash equivalents	\$ 11,726	\$ 8,868	\$ 9,758	\$ 19,389	\$ 12,563	\$ 42,970	\$ 105,274
Accounts receivable	60	-	-	-	-	3,298	3,358
Total Assets	<u>\$ 11,786</u>	<u>\$ 8,868</u>	<u>\$ 9,758</u>	<u>\$ 19,389</u>	<u>\$ 12,563</u>	<u>\$ 46,268</u>	<u>\$ 108,632</u>
Liabilities							
Accounts payable	\$ 43	\$ -	\$ 213	\$ 4,929	\$ -	\$ 1,012	\$ 6,197
Due to student groups	11,743	8,868	9,545	14,460	12,563	45,256	102,435
Total Liabilities	<u>\$ 11,786</u>	<u>\$ 8,868</u>	<u>\$ 9,758</u>	<u>\$ 19,389</u>	<u>\$ 12,563</u>	<u>\$ 46,268</u>	<u>\$ 108,632</u>

LARUE COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES

LARUE COUNTY HIGH SCHOOL

YEAR ENDED JUNE 30, 2005

NAME OF ACTIVITY	CASH BALANCES July 1, 2004	RECEIPTS	DISBURSE- MENTS	CASH BALANCES June 30, 2005	ACCOUNTS RECEIVABLE AND DUE FROM OTHER FUNDS June 30, 2005	ACCOUNTS PAYABLE AND DUE TO OTHER FUNDS June 30, 2005	FUND BALANCES June 30, 2005
Academic	\$ 82	\$ 5,198	\$ 5,280	\$ -	\$ -	\$ -	\$ -
Agenda Books	-	-	-	-	-	-	-
Agriscience	93	14,004	10,761	3,336	-	309	3,027
Art Club	45	207	80	172	-	-	172
Art Department	25	155	128	52	-	-	52
Arts and Humanities	-	-	-	-	-	-	-
Athletic - Baseball	-	-	-	-	-	-	-
Athletic - Cross Country	-	-	-	-	-	-	-
Athletic - Volleyball	-	-	-	-	-	-	-
Athletic - Wrestling	10	-	-	10	-	-	10
Athletic B-Ball Camp	1,757	2,845	2,866	1,736	-	-	1,736
Athletic F-Ball Coke	77	896	851	122	-	-	122
Athletic Girls B-Ball Camp	-	-	-	-	-	-	-
Athletics	14,310	93,952	98,254	10,008	3,216	-	13,224
Band	1,605	5,584	7,001	188	-	-	188
Business Department	81	422	447	56	-	-	56
Candy Machines	2,151	294	238	2,207	-	-	2,207
Champions Club	2,473	1,155	1,294	2,334	-	-	2,334
Choir	2,473	2,082	2,683	1,872	-	-	1,872
Coke - Faculty	382	930	651	661	-	-	661
Community Service Club	473	313	306	480	-	-	480
Computer Lab	-	-	-	-	-	-	-
Concessions	135	7,496	7,631	-	-	-	-
Family & Consumer Science	1	695	667	29	-	-	29
FBLA	-	3,074	3,074	-	-	-	-
FCA	88	-	40	48	-	-	48
FCCLA	1,243	168	265	1,146	-	139	1,007
FFA	-	29,767	29,510	257	-	-	257
Field Trip	129	700	457	372	-	-	372
Flower & Gift Fund	-	-	-	-	-	-	-
Future Educators of America	108	-	-	108	-	-	108
General Fund	3,263	8,926	9,420	2,769	-	489	2,280
Gjerstad Supplies	-	-	-	-	-	-	-
Guidance Office	482	2,319	2,427	374	82	75	381
Junior Achievement	-	-	-	-	-	-	-
Junior Class	5,849	6,745	8,709	3,885	-	-	3,885
Kelly Dean Sanders Fund	-	-	-	-	-	-	-
Library Club	655	658	423	890	-	-	890
Lift-A-thon	-	2,707	2,625	82	-	-	82
Little League Football Camp	23	-	23	-	-	-	-
Math & Science Club	-	-	-	-	-	-	-
Pep Club	439	-	315	124	-	-	124
SADD Chapter	-	-	-	-	-	-	-
Scholarship Fund	-	-	-	-	-	-	-
School to Career	-	-	-	-	-	-	-
Senior Class	-	4,946	4,902	44	-	-	44
Softball Uniforms	-	-	-	-	-	-	-
Spanish Honor Society	-	-	-	-	-	-	-
Speech & Drama Club	-	2,920	2,920	-	-	-	-
Student Coke	6,560	16,532	22,372	720	-	-	720
Student Council	732	1,993	1,449	1,276	-	-	1,276
Supplies	234	-	159	75	-	-	75
Technology Classes	-	132	124	8	-	-	8
Technology Study Association	367	3,366	2,481	1,252	-	-	1,252
Textbook Account	15,855	14,789	30,644	-	-	-	-
Volleyball Camp	-	15	-	15	-	-	15
Yearbook	12,501	17,338	23,592	6,262	-	-	6,262
TOTALS	74,701	253,323	285,069	42,970	3,298	1,012	45,256
TRANSFERS		8,320	8,320	-			-
TOTALS	\$ 74,701	\$ 261,643	\$ 293,389	\$ 42,970	\$ 3,298	\$ 1,012	\$ 45,256

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

LARUE COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2005

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>		<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Passed Through State Department of Education:				
National School Lunch	10.555	*	575-04-02	\$ 97,500
			575-05-02	306,078
School Breakfast	10.553	*	576-04-05	28,102
			576-05-05	102,557
Summer Feeding Program	10.559	*	569-04-24	7,424
Cash for Commodities/Childcare	10.558		N/A	14,855
Passed Through State Dept. of Agriculture				
Food Distribution (In-Kind Commodities)	10.555	*	N/A	57,599
TOTAL U.S. DEPT. OF AGRICULTURE				<u>614,115</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Passed Through State Department of Education:				
Title I	84.010	*	3104	22,755
			3105	529,517
Title I - Migrant	84.011		3114	19,382
			3115	10,863
Title IIC	84.048		3484A	1,223
			3485	26,771
IDEA - Part B	84.027	*	3374	4,971
			3375	455,498
IDEA - Part B - Preschool	84.173	*	3434	2,294
			3435	32,557
Title IV	84.186		4063	7,884
			4064	7,745
			4065	5,245
Innovative Program Strategies	84.298		3344	999
			3345	9,972
Rural and Low Income Schools	84.358B		3503	4,127
Teacher Quality	84.367A		4014	7,860
			4015	137,886
Title II D	84.318X		4253	1,491
			4254	12,443
			4255	5,524
Evenstart	84.213		3234	25,801
			3235	58,547
Language Acquisition	84.365		3454	5,761
			3455	2,576

* Denotes major federal program

The accompanying notes are an integral part of this schedule.

LARUE COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONCLUDED

YEAR ENDED JUNE 30, 2005

(Concluded)

U.S. DEPARTMENT OF EDUCATION-CONTINUED

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
Passed Through Cabinet for Workforce Development Adult Education	84.002	3655 3734S 3735 3735S 3805	5,910 426 21,557 1,663 5,935
Tech Prep	84.008	3635	19,530
Passed Through University of Kentucky: Gear Up	84.048	3794G 3795G	20,589 52,030
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>1,527,332</u>
<u>Corp. for National and Community Service</u>			
Passed Through State Department of Education: National Community Service	94.004	6755	<u>3,000</u>
TOTAL CORP. FOR NATIONAL AND COMMUNITY SERVICES			<u>3,000</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 2,144,447</u></u>

* Denotes major federal program
The accompanying notes are an integral part of this schedule.

LARUE COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2005

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Larue County School District and is presented on the accrual basis of accounting for proprietary funds and the modified accrual basis of accounting for governmental funds. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LARUE COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued (unqualified):

Internal control over financial reporting:

- Material weakness(es) identified? _____yes X no

- Reportable condition(s) identified
that are not considered to be material
weaknesses? _____yes X none reported

Noncompliance material to financial
statements noted? _____yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____yes X no

- Reportable condition(s) identified
that are not considered to be material
weakness(es)? _____yes X no

Type of auditor's report issued on compliance for major programs (unqualified):

Any audit findings disclosed that are
required to be reported in accordance
with section 510(a) of Circular A-133? _____yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.555	National School Lunch Program
10.553	National School Breakfast Program
10.559	Summer Feeding Program
84.027	Idea B
84.173	Idea B – Preschool
84.010	Title I

Dollar threshold used to distinguish
Between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____yes X no

Section I-Summary of Auditor's Results

Section II – Financial Statement of Findings

Finding 05-1

Criteria

Kentucky Revised Statute 41.240 requires that depository institutions pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times.

Condition

We noted that at June 30, 2005, \$2,070,204 of the District's bank balance of \$5,537,720 consisted of funds that were not secured by FDIC insurance or pledged collateral.

Cause

The bank did not obtain sufficient collateral to secure the deposits.

Effect

The District's deposits were at risk should the bank be unable to meet its obligations on these dates.

Recommendation

The District should contact the bank to ensure that the collateral agreement provides for sufficient pledged securities to cover the Clerk's deposits.

View of Responsible Officials

The District will contact the bank to ensure that sufficient collateral is pledged against the District's deposits.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

LARUE COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

June 30, 2005

There were no prior audit findings.

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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Larue County School District
Hodgenville, Kentucky

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Larue County School District as of and for the year ended June 30, 2005, which collectively comprise the Larue County Board of Education's basic financial statements and have issued our report thereon dated August 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II and III of the Independent Auditor's Contract.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Larue County Board of Education's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Larue County Board of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards which is disclosed in the accompanying schedule of findings and questioned costs as item 05-1.

We also noted certain additional matters that we have reported to the management of Larue County Board of Education in a separate letter dated August 25, 2005.

This report is intended for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Larue County School District, the Kentucky Department of Education and management and should not be used by anyone other than these specified parties.

Stiles, Carter & Associates

Certified Public Accountants
August 25, 2005

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

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Compliance

We have audited the compliance of Larue County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Larue County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Larue County School District's management. Our responsibility is to express an opinion on Larue County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II and III of the Independent Auditor's Contract. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Larue County School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Larue County School District's compliance with those requirements.

In our opinion, Larue County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Larue County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Larue County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in Appendix II of the Independent Auditor's Contract – State Audit Requirements.

This report is intended for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Larue County School District, the Kentucky Department of Education, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Shles, Carter & Associates". The signature is written in a cursive, flowing style.

Certified Public Accountants
August 25, 2005

MANAGEMENT LETTER COMMENTS

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Hodgenville, Kentucky

In planning and performing our audit of the basic financial statements of Larue County School District for the year ended June 30, 2005, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated August 25, 2005 contains our report on the District's internal control structure. This letter does not affect our report dated August 25, 2005 on the basic financial statements of the Larue County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and their implementation is currently being reviewed. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Certified Public Accountants
August 25, 2005

LARUE COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

June 30, 2005

UNCORRECTED PRIOR YEAR COMMENTS

Segregation of Duties in Handling Receipts – School Activity Funds

During our audit, we noted that Larue County Middle School and Buffalo Elementary School did not comply with the segregation of duties requirements for handling receipts as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

The District will ensure that the requirements of *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education are followed and will hold meetings with school administrators to outline the requirements.

CURRENT YEAR COMMENTS

Segregation of Duties in Handling Receipts and Paying Bills – School Activity Funds

During our audit, we noted that Larue County High School and Hodgenville Elementary School did not comply with the segregation of duties requirements for handling receipts and paying bills as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

The District will ensure that the requirements of *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education are followed and will hold meetings with school administrators to outline the requirements.

Segregation of Duties in Paying Bills – School Activity Funds

During our audit, we noted that Magnolia Elementary School did not comply with the segregation of duties requirements for paying bills as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

The District will ensure that the requirements of *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education are followed and will hold meetings with school administrators to outline the requirements.

LARUE COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS - CONTINUED

June 30, 2005

CURRENT YEAR COMMENTS – CONTINUED

Ticket Sales – School Activity Funds

During our audit, we noted that Larue County Middle School did not change ticket colors for consecutive events as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

The District will ensure that the requirements of *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education are followed and will hold meetings with school administrators to outline the requirements.

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Members of the Board of Education
Larue County Board of Education
Hodgenville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Larue County School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements, as listed in the accompanying table of contents, and have issued our report thereon dated August 25, 2005. Professional standards require that we provide you with the following information related to our audit.

Our responsibility under auditing standards generally accepted in the United States of America, the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II and III of the *Independent Auditors' Contract*.

As stated in our engagement letter dated July 27, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the general purpose financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud or illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our audit procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This report is intended solely for the use of the members of the Board of Education, Kentucky State Committee for School District Audits and management and is not intended and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Shiles, Carter & Associates".

Certified Public Accountants
August 25, 2005